COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF WESTERN KENTUCKY GAS COMPANY	))	CASE NO. 90-013

O R D E R

The Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division ("Attorney General"), having moved on April 18, 1990 to amend the procedural schedule in this matter and thereafter on April 19, 1990 having moved to withdraw the motion and the Commission considering the motion of the Attorney General as a notice of withdrawal of the first motion,

IT IS HEREBY ORDERED that the Attorney General is granted leave to withdraw his motion to amend the procedural schedule.

Done at Frankfort, Kentucky, this 24th day of April, 1990.

PUBLIC SERVICE COMMISSION

Robert M. Davis

For the Commission

ATTEST:

Lee M Macracken

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF WESTERN KENTUCKY GAS COMPANY	))	CASE NO. 90-013

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("Western") shall file the original and 12 copies of the following information with the Commission by May 1, 1990, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Reference response to Item 12 of Commission's Order dated March 30, 1990. Provide the following information:

a. Identify the $4,028,691 of other current assets on the pre-acquisition balance sheet.

b. An explanation of each item in column C-Acquisition. State the reason the item was removed or added to Western's balance sheet.

2. Reference response to Item 12 of Commission's Order dated March 30, 1990. The pre-acquisition balance sheet shows $12,783,597 of deferred income taxes and investment tax credits. The post-acquisition balance sheet shows that these items have been eliminated. Provide a detailed explanation of why the tax items were eliminated.

3. Provide detailed information concerning the Phelp's Dodge lawsuit.

4. Provide the total amounts that Western paid for country club dues or country club related activities. Include all amounts that were direct bills for Western officers, employees, or consultants and any amount that was allocated to Western from any affiliate. Show to what account the payments were charged.

5. Reference response to Item 18 of Commission's Order dated March 30, 1990. Provide the amount of the $1,497,077 adjustment that is attributable to the accounting charge as opposed to the annualization of Western's labor expense.

6. Reference Western's response to Item 19 of Commission's Order dated March 30, 1990. If administration and general services are being provided by the Atmos division on behalf of Western, why will the costs no longer be charged to construction if Western is still being billed for the costs?

7. Provide the total amount of the premiums paid to X. L. Insurance Co., Ltd., Policy #G321RXB and AEGIS Insurance Services, Inc. Policy #XL300A88. In addition, provide the amounts allocated to all units and provide the basis for allocation.

8. Provide all information concerning River Park Center in Owensboro and Western's $150,000 pledge. To what expense account is this amount being charged?

9. In response to Item 14 of the Commission's Order dated March 30, 1990, Western shows on its March 31, 1989 billing from Atmos a charge of $82,116.70 for O. C. Tanner - Employee Awards. Provide detailed information concerning this billing and provide an itemized breakdown of the total billing. To what expense accounts were these items charged?

10. Provide the total amount of prorated aircraft costs billed to Western from Atmos for the test period.

11. Provide information concerning Columbus Circle Investors and the $21,494 billed Western in May 1989.

12. Provide information concerning the 1989 San Francisco Builders conference and the $47,146 billed to Western for attendance. Provide the names and positions of the persons attending.

13. Provide for the test period the total amount of profit or loss from Western Kentucky Gas Resources for the sale of homes for relocation of Western employees.

14. Why did the change from Flood and Ward to Skadden/Arps result in a $101,504 increase in Outside Services?

15. In response to the Attorney General's data request of March 30, 1990, Item 6, Western states that the company is no longer leasing aircraft but it will be replaced with commercial airfare. State the reason for the change and the projected difference in cost resulting from the change.

16. Provide the total payroll amounts for the test period in the same format that is used in Item 3 of the Commission's Order dated March 30, 1990.

17. In reference to Western's response to Item 9, page 4 of 4, of the Commission's Order dated March 30, 1990, explain the $372,844. Is this the total depreciation expense for Atmos or is the $1,474,984.59 on page 1 of 4? Provide details of the $1,474,948.59 on page 1.

18. Provide the detailed working papers used in determining the amount of all expenses allocated to Western and all other operating units during the test period.

19. In response to Item 49 of the Attorney General's data request dated March 30, 1990 at subpart C, it is stated that "WKG upon acquisition was merged into Atmos and became a division." Provide detailed information concerning the merger. Provide all journal entries made on the books of Atmos and Western. Provide detailed explanations of the journal entries.

20. On Exhibit 6, page 4 of 4, of Western's filing, there is an amount of $800,629 identified as construction work in progress. Identify the portion of this CWIP amount that Western has determined to be eligible for AFUDC.

21. On Exhibit 3, page 4 of 5, of Western's filing, provide information about the type of construction estimated in the cost of $800,829 shown under construction work in progress.

22. If Western agreed to an interest synchronization adjustment in this proceeding, provide an example of the methodology to be used in such adjustment.

23. If Atmos did not assume the deferred taxes on Western's balance sheet at the time of the acquisition, how did Western's ratepayers benefit from the "cost free" source of capital provided by these deferred taxes?

24. Adjustment 6 on Exhibit 5 of Western's filing proposes to increase expenses by $3,193,002 as revised on Exhibit MSL-2. Provide instances of cost savings in other areas of Western's operations as a result of the increased expenses. Are these expenses merely shifts in expenses from one area to another?

25. What is Western Kentucky Gas Resources and what is its function?

26. Provide the source and type of any income received by Western that is derived from any of Western's affiliates.

27. Provide the amounts of any payments made by Western during the test year to any of Western's affiliates other than Atmos. Such affiliates should include but not be limited to Energas, TransLa, NRG, Egasco and TLIG.

28. List all sources of income for Western other than sales of natural gas. This should include all non-utility income and the amounts of such income.

29. In reference to Exhibit 7, page 1 of 8, explain why the maintenance cost for manufactured gas production is $10,299 or approximately equal to 57% of the operating cost for manufactured gas production.

30. Item 27 of the Commission's Order of March 30, 1990 dealt with Western's industrial load, transportation of gas, and alternative fuels capabilities of industrial transportation customers.

a. Parts A and B of the response show that the number of industrial customers served by Western over the period 1986 through September 30, 1989 has declined slightly (from 263 to 257), while the number of transportation customers has tripled (from 33 to 101). Parts A and B of the response also show that industrial transportation volumes, total transportation volumes, and total industrial throughput have increased in each of the last three twelve-month reporting periods compared to the volumes in the previous period. Mr. Carnahan's testimony characterizes Western's industrial rates as being uncompetitive. Given that characterization, provide a detailed explanation for how Western has been able to increase industrial transportation and industrial throughput over the past four years.

b. Part C of the response shows, by fuel, the number of transportation customers with alternative fuel capabilities and the volumes transported for these customers during the test year. Of the 46 transportation customers with oil as their alternative fuel, indicate the number that can use No. 2 fuel oil and the number that can use No. 6 fuel oil along with a corresponding breakdown of the 10.4 million Mcf transported for these 46 customers.

c. Based on the most recent data available to Western, provide the delivered price per Mcf required to compete with the prices for No. 2 and No. 6 fuel oil.

31. Item 28 of the Order of March 30, 1990 addressed Western's customer growth, variable costs related to customer growth, and whether such growth had been reflected in Western's application. The response included Western's customer totals by month and rate class for the three consecutive twelve-month periods immediately preceding the test year, a discussion of average investment to serve new customers, and a discussion of variable expenses associated with customer growth.

a. Western is proposing to use a test year-end rate base. In addition, Western is proposing several expense adjustments which go beyond the end of the test year. However, except for the adjustments for industrial sales volumes and for weather normalization, Western's revenues reflect only the test year-average number of customers. Given the nature of Western's proposals for rate base and expenses, provide a detailed explanation for why a test-year customer growth adjustment would not result in a better matching of revenues with expense and investment levels.

b. Part B of the response indicates that non-gas variable costs would be reflected in Account Nos. 870-880 and Account Nos. 900-905. Per Exhibit 7 of Western's Notice, the test year total for those accounts was $8,417,989. Of that amount, indicate the portion that is labor-related (for salaries, wages, and benefits).

32. Item 30 of the Order of March 30, 1990 referred to Western's proposed rate design as discussed in the testimony of witness Petersen. Among other things, the response addressed the degree of gradualism reflected in Western's proposed rates. Part D of the response indicates that Western's proposed rates reflect gradualism to the extent that they do not result in a complete move to class cost-of-service rates. If class cost-of-service rates is Western's ultimate objective, provide an explanation for why such rates were not proposed in this case.

33. Item 31 of the Commission's Order of March 30, 1990 dealt with various cost-of-service issues addressed in the testimony of witness Petersen. The response addressed curtailments of interruptible customers, peak day demand, and demand cost allocation.

a. Part C of the response addresses interruptible customers contributing to actual annual peak day demand during a year when there are no curtailments. Per Part B of the response, the test year was a year with no curtailments. For each month of the test year, provide actual peak day demand and show what portion of peak day deliveries for each month was firm and what portion was interruptible.

b. Provide total Mcf volumes for each month of the test year showing firm deliveries, interruptible deliveries, and total volumes delivered.

34. Item 32 of the Order of March 30, 1990 requested that Western provide the results of modifying the class cost-of-service study to allocate pipeline demand costs based on annual volumes. The response indicated that such a study had not been prepared but that modifications to the study could be made using the computer diskette supplied in response to Item 26 of the Commission's Order. Is Western able to confirm or verify that if such modification is made that class rates of return at present rates would be: Residential - 1 percent; Commercial - 1.5 percent; Rate 1 Industrial - 25 percent; G-1/G-2 Industrial - 23 percent; G-1/G-3 Industrial - 22 percent?

35. Why does Western believe it would be inappropriate to include short-term debt in the capital structure at the average cost of short-term debt during the test period of 7.88 percent (per response to Item 2b to Commission's Order dated February 9, 1990)?

36. According to response to Commission's Order dated March 30, 1990, Item 41, "seasonal swings in accounts which vary with seasonal factors are at or near their low points" on September 30, 1989. How did seasonal factors specifically affect the level of short-term debt which existed a) at the end of the test period; and b) for each month of the test period? What other factors influenced the level of short-term debt during the test period?

Done at Frankfort, Kentucky, this 24th day of April, 1990.

ATTEST:

Lee M. Macbracken

Executive Director

PUBLIC SERVICE COMMISSION

Robert M. Davis

For the Commission